SMITH SHELLNUT WILSON
AN AFFILIATE OF b1BANK

Financial Week Newsletter

As summarized by Smith Shellnut Wilson

February 13, 2023

Equity Markets

The S&P 500 had its worst week in nearly two months and the NASDAQ slipped hard as well. There was a move toward value as was evidenced by the DJIAs more subtle shift down only -0.2%. The hard swift pullback came down to uncertainty, which was evidenced by the VIX (volatility measure) jump of 10.8% for the week.

	2/6 Open	2/10 Close	Change
Dow Jones	33,926	33,869	-0.2%
S&P 500	4,137	4,090	-1.1%
NASDAQ	12,007	11,718	-2.4%
KBW Bank Index	114.5	112.4	-1.8%
VIX	18.5	20.5	+10.8%
Oil (WTI)	73.4	79.7	+8.6%

The market is, respectfully, scratching its head after an unexpected jobs report the previous week and harsher FOMC chatter about rates remaining higher, during the week. Quarterly corporate earnings continue to lean towards underwhelming as about 70% of S&P 500 companies have reported with slightly lower than expected results. Another factor was oil, which had its largest increase since October. This all adds up to uncertainty, which resulted in investors pulling back for the first week of February, following a relatively strong January.

Interest Rates/Bonds

Treasury bonds sold off swiftly during the week. A few FOMC participants spoke during the week and highlighted that rates should remain elevated and for a longer period of time than the market has been recently forecasting. This created uncertainty, from traders/investors, and a Treasury market sell off. 2 to 10-year Treasuries were up by more than 20 basis points for the week.

	2/6 Open	2/10 Close	Change
3mo UST	4.64%	4.73%	+9bp
2yr UST	4.28%	4.52%	+24bp
5yr UST	3.66%	3.92%	+26bp
10yr UST	3.53%	3.73%	+20bp
2–10yr UST Spread	-75 bp	-79 bp	-4bp
10yr Inflation Rate	2.23%	2.34%	+11bp

The inversion of the yield curve grew to its widest margin since the early 1980s, as the negative spread between the yields of 2- and 10-year U.S. Treasury bonds swelled to 86 basis points at one point on Thursday. On Friday, the spread moderated, with the 2-year yield at 4.51% versus the 10-year note’s 3.74%.

Washington

President Joe Biden referenced his administration's effort to reduce "junk fees" during his State of the Union address. In particular, he mentioned overdraft fees, credit card late fees and the proposed legislation, the Junk Fee Prevention Act.

The OCC dropped more hints about what aspects of bank merger review policy are under scrutiny as regulators embark on their sweeping review of those guidelines. Some believe that increased regulatory scrutiny of M&A is hindering competition by creating more challenges for regional banks to add the scale needed to effectively rival the largest banks. The OCC asserts that "Good mergers should not be discouraged by uncertain regulatory outcomes, and uncertainty of outcome should not be used as a policy tool to deter mergers."

The Federal Reserve sent a clear message on its stance on banks' involvement in cryptocurrencies when it denied Custodia Bank Inc.'s master account and member bank applications and issued a policy statement on the topic. The statement said that all banks regulated by the Fed Board, regardless of deposit insurance status, will be subject to the same limitations when it comes to "novel banking activities." As an example, the statement specifically named cryptocurrency-asset-related activities.

Economic Results 2/6 – 2/10

UofM Consumer Sentiment: The preliminary consumer sentiment index for February increased to 66.4 from 64.9 in January. That's the best reading since January 2021. Easing inflation and a strong labor market are helping consumers feel better about the economy.

Economic Week Ahead

CPI (Tues)

Retail Sales (Wed)

PPI, Housing Starts (Thurs)

Quote

"Don't let the fear of losing be greater than the excitement of winning."

– Robert Kiyosaki

Contact

SSW Research Department
Chad McKeithen
P: (601) 605-1776
E: chad.mckeithen@ssw1776.com
www.ssw1776com

The source for the information above is Bloomberg News unless otherwise noted.